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MAGAZINE ADVERTISING AND THE POSTAL DEFICIT

I

During the last five years the Post-office deficit has ranged from five to seventeen million dollars. Second-class mail matter, composed largely of newspapers and periodicals, forms the greater part of the postal tonnage. Second-class mail matter is carried below cost. These are three undisputed facts. At the last separate weighing (1907), second-class mail made 64 per cent of the weight and yielded 5 per cent of the revenue, a condition explained by an expense of over eight cents per pound, accompanied by a postage rate of only one cent per pound. The estimated loss on the second-class branch of the mail service during 1909 was over \$60,000,000.¹

"Magazines" make up about twenty per cent of the second-class tonnage. Periodicals of all sorts, including "magazines," constitute about forty-five per cent. The importance, however, of magazines in causing the deficit is greater than would be indicated by their weight; for their average haul exceeds 1,000 miles, being far greater than that of other matter. It is estimated that magazines, for the transportation alone, cost five cents per pound.

This non-self-supporting branch of the postal service was originated "for the dissemination of information of a public character, or devoted to literature, the sciences, arts, or some special industry." It was made available for publications sent to bona fide subscribers only. And those "designed primarily for advertising purposes" or "for circulation at nominal rates" were expressly excluded. The obvious aim was to promote intellectual progress through the circulation of reading-matter which the people were willing to pay for.

The root-evil of the present situation lies in an inconsistency: magazines are financed and circulated on an adver-

¹ The statistics are all minimum or conservative interpretations of the lowest government figures. There is dispute as to the amount by which cost exceeds revenue.

tising basis; they are delivered and purchased on a reading-matter basis. They are generally designed to circulate at nearly nominal rates of subscription; and there is nothing in price conditions to guarantee that the reading-matter contained is what the people are willing to pay for.

Accordingly, the government proposes an increased rate on the advertising sections of magazines. Newspapers are excepted; and undoubtedly the newspaper meets the test of dissemination of information of a public character more clearly than the magazine. In a democracy the "paper" is essential. Furthermore, the newspaper is not the source of the great loss in the second-class branch: the average haul for newspapers in 1908 was only 291 miles. (For free circulation in the county of publication the average haul is only about 7 miles.) "Educational" and religious periodicals are also to be excepted. No doubt as to their coming under the original intent exists; nor are they generally circulated on an advertising basis.

II

The magazines oppose the proposed advance in rates on advertising matter on the ground that it is difficult of application and involves discrimination. Now no one can have any doubt as to the general class of publications labeled "magazine." But to secure a closer working demarkation, it is suggested that the newspapers and technical, educational, and religious periodicals might easily be distinguished, and the balance be classed as "magazines." If any difficulty remains, the amount and character of the advertising matter itself should be taken in evidence.

That there are two kinds of discrimination, reasonable and unreasonable, is a hard thing for an American to grasp. There is good reason for discriminating reasonably against the magazines; to fail to do so is to discriminate unreasonably against other industries not aided by special governmental favors, and against the users of other branches of the postal service the development of which is retarded by the second-class deficit.

The magazines further object to the conduct of the postal

service, indicating that they are not responsible for the deficit. In the first place, they argue that the government's cost on second-class mail is too high. Here no adequate facts are available. The chief basis appears to be a comparison with express rates; but this is utterly misleading for the simple reason that the express companies take the cream of the business—the bulk-package, short-haul business. They rarely haul magazines over 150 miles; generally less. It is, therefore, no wonder that their rates are lower. In any case the relation of revenue to cost is the important point. At the present rates the magazines must be handled at a very greatly reduced cost indeed, if they are to pay for the mail service they receive.

In the second place, it is argued that other branches of the service are unprofitable. In all such cases, however, either social utility is so clear, expense so small, or such indirect compensation from other departments is received, that they furnish little ground for longer favoring the magazines. Moreover, it is not proposed to make the latter pay for others' deficits. They are asked to pay for nothing that they do not get.

Finally, the magazines object that the results would be bad for the postal department, and for subscribers. Now the former point assumes that there would be less advertising, and so less first-class revenue; but this does not follow. More probably, the charges for advertising would be somewhat raised with lower profits to the manufacturers of advertised articles or higher prices on their wares, or both. But, even granting the assumption, the argument overlooks the fact that the object of the measure would be to make the second-class branch self-supporting; that any slight decrease in first-class revenue would be cheerfully borne—that, in fact, even one-cent postage is talked of as a possible outcome. The government estimates that if the whole of the net revenue of the first and fourth classes were attributed to the second-class branch and were lost, we should still gain several million dollars by making the second-class branch pay.

Now the magazine purchaser's interests remain for consideration. Subscription prices might be raised, but this is not

likely to be the sole, or even the chief, effect. The profits of magazine publishers, or of manufacturers of advertised articles, or the prices of advertised articles and the wages of employees might be affected instead of or along with subscription rates. It is quite certain that the whole effect would not be exerted upon magazine prices, and that the burden would not rest entirely upon magazine subscribers. To raise prices to subscribers would limit circulation, and it is upon the subscription list that the magazine's ability to secure advertising matter depends. Following the line of least resistance, the advertiser would be called upon to bear a considerable part; and he, in turn, would pass on a share of the burden to his customers, who, as his goods are almost entirely luxuries, would not be harmed.

But, even supposing that the burden would rest largely upon the consumer, only half the story is told. Great gains offset it. An annual deficit is now made good by appropriations and taxation. We are now burdened with higher first-class and merchandise rates than are necessary, and these could be lowered. And that the present tax burden is not so well adjusted as the increased expenditures connected with magazine luxuries, is another consideration.

The argument of the magazines runs as follows: Advertisements are profitable, magazine prices are therefore lower, and intellectual progress is accordingly stimulated. But the chain of cause and effect must be completed, and when completed it becomes a circle. What makes advertisements profitable? Circulation. But circulation, to no small degree, depends upon cheap postage; that is, tons of advertising and reading-matter can be flooded out at nominal rates, largely because it is transported and delivered far below cost. Circulation cannot be taken for granted: back of it lies the second-class deficit. We are merely putting into one pocket somewhat less than we are taking out of the other.

By the same logic, the manufacturer of advertised articles can market his goods cheaper as a result of governmental generosity.

III

The Post-office is a public business, its services being of high importance to all, and its benefits generally diffused. As such, its total revenue should, on the average, just cover the expense—no surplus, no deficit. This is a rough way of insuring that no activity is maintained whose cost exceeds its utility. Net social benefit is the test. But this aggregate condition may exist with one branch taxed to sustain another which in itself does not meet the test. In such a comparison of branches, the conclusion is that unless the deficit branch is clearly of higher social benefit than the surplus branch, it should be made to pay. Otherwise, the extension of the more beneficial branch of service is limited. The utility of the service, as indicated by what the people are willing to pay, must be balanced against the cost and compared with the utility of the other branch.

The application of this test is especially imperative in this case, because the government has no monopoly of second-class matter. The express companies skim the cream of the business, leaving only the most costly or lowest-net-benefit service. No averaging for society is possible. The test does not conflict with the principle according to which, within the same branch one region may be served at a loss and recouped from the gains of another region, the dense paying for the sparse. Thus a rough average for society is attained.

What, then, is the character of the magazine service? A careful examination of several typical leading magazines gives the following results. Reading matter is 52 per cent, advertising is 48 per cent. In several cases this percentage of advertising is exceeded. In number, advertisements of "investment opportunities" and of the means of pleasure and diversion lead all others; while toilet and medicinal preparations, articles of food, and sanitarium and health resorts, bulk large. Necessities, liberally construed, form less than 19 per cent. Certainly over 25 per cent are luxuries. Some 50 per cent might be classed as comforts and conveniences. Many purport to save labor, but very few to save expense. Ninety-seven per cent are purely acquisitive, merely seeking to get us to use "Gold Medal" instead

of "Pillsbury's Best" or Williams' instead of Colgate's. A considerable proportion are characterized by charlatanism. This leaves an inappreciable percentage which is clearly calculated to add to well-being by stimulating new tastes.

Being largely upon an advertising basis, magazines do not compete upon the basis of quality of reading-matter solely, and it is probable that better magazines would be the result of cutting down the advertising feature. In some cases the influence of advertisers limits the educational value of the magazine.

To the writer, the logical conclusion seems evident. The carriage of news or intelligence is the original and essential function of the Post-office. The educational and moral addenda should be retained, but strictly construed. To these services the postal principle of low, flat rates and rapid, certain service should be applied. On the other hand, packages and less essential reading-matter—books, advertising matter, magazines (largely advertisements), etc.—are of secondary importance and require less rapid and costly delivery. To them, apply the parcels-idea. The service, as at present conducted, is illogically divided. And it is this illogical condition which finds expression in the government's proposition to raise rates on magazine advertising matter. That proposition suggests the real trouble, and to that extent is a step in the right direction. The real criticism is that it does not go far enough.

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